

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL ONE)

Docket No. RM2015-9

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-4 OF CHAIRMAN'S INFORMATION REQUEST NO. 1**
(July 10, 2015)

The United States Postal Service hereby provides its responses to Questions 1-4 of Chairman's Information Request No. 1, issued June 26, 2015. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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July 10, 2015

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1. The Postal Service states that “[b]reakage revenue is not product related, and should be allocated to Other Revenue.” Petition at 8.
 - a. Please confirm that breakage revenue is allocated to products under the existing methodology. If not confirmed, please explain.
 - b. Please provide sample journal entries used to record revenue from breakage under the current methodology.

RESPONSE:

- a. Confirmed.
- b. Attached to this response electronically is a pdf of the May 2015 Journal Voucher recording the change in the liability for Postage in the Hands of the Public for Forever Stamps. The total adjustment for May was a decrease in the deferred revenue liability of \$55.6 million, and a corresponding increase in revenue recognized of the same amount.

The total breakage portion of this adjustment was \$15,766,730.52, which is shown on the spreadsheet summarizing the changes to the liability on page 2 of the Journal Voucher. For forever stamp layers with Workhorse, Mail Use and Collectible stamps, the weighted average breakage rate used was 3.69 percent. For the forever stamp layer with Global stamps, the Workhorse breakage rate of 3.24 percent was used.

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2. The Postal Service states that large increases or decreases in deferred revenue and revenue due to adjustments in Postage in the Hands of the Public (PIHOP) can distort Revenue, Pieces, and Weight (RPW) report product estimates disproportionately. *Id.*
- a. Please provide the monthly RPW product estimates for Quarters 1 and 2 of Fiscal Years 2013, 2014, and 2015 for First-Class Mail by product type in the same format as reported in the quarterly RPW reports.
 - b. Please confirm that the PIHOP adjustment to deferred revenue and revenue are allocated to products under the existing methodology. If not confirmed, please explain.

RESPONSE:

- a. Please see the attached Excel file labeled "CHIR1 Q2a Table." There are six tabs, one for each quarter of this request. Within each tab are two sections. The top section is the product estimates of deferred revenue, pieces and weight for stamp PIHOP. The bottom section is the same for meter PIHOP.
- b. Confirmed.

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3. Please confirm that the Petition proposes no changes to the method of allocating the PIHOP adjustment to deferred revenue and revenue to products. If not confirmed, please explain.

RESPONSE:

Not confirmed. As stated on page 9 of the Proposal One description, "PIHOP adjustments to products would be removed." Please refer to Table 1 submitted as an Excel file with this Proposal. In the current methodology box in that table, it states that amounts of -\$279.8 million and \$10.5 million, reflecting forever and meter PIHOP, are included in the right hand term of the numerator of the BRAF for FY2014. Then, in the proposed methodology box in that table, it states that these same revenues are removed. These are PIHOP revenues currently allocated to products. Another way to understand this is to review Docket No. RM2011-11, the proceeding which established the current methodology. In the 'Decomposition' tab in Prop3.PIHOP.Attach.2 (filed with Proposal Three on May 18, 2011), it shows the decomposition of the residual trial balance and the inclusion of stamp PIHOP (-\$178.9 million) and meter PIHOP (-\$45.6 million). Contrast this with the current Proposal, where on page 10 the proposed Book Revenue Adjustment formula does not expressly allocate PIHOP.

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4. Please provide the current distribution keys used to allocate PIHOP adjustments for deferred revenue and revenue for both Stamp PIHOP and Metered PIHOP.
- a. Please confirm that the distribution keys provided were used to develop Tables 2 and 3, showing the impact of the proposal. See Petition, Tables 2 and 3; Library Reference USPS-RM2015-9/NP1, June 12, 2015.
 - b. If not confirmed, please provide the distribution keys that were used to develop Tables 2 and 3 and explain the development of and rationale for the use of those distribution keys.

RESPONSE:

Please see the attached Excel file labeled "CHIR1 Q4 Table," which provides the current distribution keys used to allocate stamped and meter PIHOP in the construction of Table 2 (FY2014) and Table 3 (Q2 YTD FY2015) of this proposal. There are two tabs. In the first tab are the FY2014 proportions of stamp and meter PIHOP allocated by RPW Report line. The second tab contains the same table, but for Q2 Year-to-Date FY2015.

- a. Confirmed. Provided in the attached Excel file are the distribution keys at the RPW report level, used to develop those tables. In the actual processing, the proportions are calculated at the product level (for example, under Priority Mail it would be by small flat rate box, medium flat rate box, variable rate, etc.).
- b. Not applicable.